



March 25, 2009

Investment Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Re: Statement of Investment Policy for Real Estate (Third Reading)

Dear Members of the Investment Policy Subcommittee:

In our capacity as Real Estate Consultant to the Board, Pension Consulting Alliance, Inc. (PCA) has reviewed the proposed modifications to the above referenced Real Estate Policy. We understand that the Policy Subcommittee is reading this revised policy for the third time as part of a reiterative process aimed at aligning the interests, objectives and responsibilities of Staff, Consultants and Investment Advisors with CalPERS' Real Estate Strategic Plan and total portfolio investment goals.

The proposed Statement of Investment Policy for Real Estate greatly simplifies and streamlines the investment process, replacing more than two dozen policies loosely organized by investment type and structure. At the same time, the new policy more clearly delineates the roles and responsibilities of CalPERS' Investment Office Staff and its Consultants in the investment and portfolio management process. The integration and distillation of key concepts in an overarching real estate investment policy should result in a more consistent and disciplined approach to real estate investing. The danger associated with a shorter, simpler document is that there will inevitably be issues that are not specifically addressed and which therefore become the subject of interpretation and potential misalignment. PCA believes this risk is mitigated in large part by the Delegated Authority in place and the Staff Internal Procedures Manual that is currently being developed. Combined with the Strategic Plan, the principles articulated in these three documents should lead to a more rigorous focus on risk management and oversight functions within the real estate portfolio.

This latest round of proposed modifications to the Investment Policy includes comments from outside legal counsel, Pillsbury Winthrop Shaw Pittman LLP, relating primarily to the use of leverage in the real estate investment program, risk mitigation for hazardous waste situations, and allowable investment structures. PCA finds that these proposed modifications further clarify the intent and investment guidelines of the document.



P e n s i o n C o n s u l t i n g A l l i a n c e , I n c .

Los Angeles • Portland • New York • www.pensionconsulting.com

Based on our review of the current proposed modifications as well as previous versions of the policy and other supporting documentation, PCA concurs with the proposed modifications to the Investment Policy for Real Estate. We believe this new policy will aid all participants in the investment management of CalPERS' real estate portfolio.

Respectfully,

Christy Fields
Managing Director